

Message Text

CONFIDENTIAL

PAGE 01 STATE 259166

73

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INFO OCT-01 ARA-06 EUR-12 EA-07 IO-10 ISO-00 AID-05

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

INFO AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY HELSINKI

AMEMBASSY TOKYO

AMEMBASSY BRASILIA

USMISSION GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L STATE 259166

E.O. 11652: N/A

TAGS: ETRD, CA

SUBJECT: CANADIAN LETTER ON QTE INFLATION INSURANCE UNQTE

1. IN A LETTER CLASSIFIED QTE CONFIDENTIAL UNQTE DATED
OCTOBER 23 FROM GHERSON OF CANADIAN EMBASSY IN WASHINGTON
TO MAYNARD GLITMAN, DEP. ASST. SECRETARY FOR INTERNATIONAL
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 259166

TRADE POLICY, GOC SPELLED OUT OFFICIALLY ITS OPPOSITION TO

QTE INFLATION INSURANCE UNQTE, BUT LEFT OPTION OPEN TO TAKE OTHER MEASURES TO PROTECT CANADIAN EXPORTERS FROM EFFECTS OF THIS FORM OF EXPORT SUBSIDY.

2. BEGIN TEXT: YOUR EMBASSY IN OTTAWA MADE INFORMAL REPRESENTATIONS TO CANADIAN AUTHORITIES ON THE UNDERSTANDING THAT WE WERE CONSIDERING IMPLEMENTING A COST ESCALATION INSURANCE PROGRAMME.

WE HAVE BEEN ASKED TO CONVEY TO YOU CANADIAN VIEWS ON FORMAL COST ESCALATION INSURANCE PROGRAMMES WHICH, AS YOU ARE AWARE, ARE MAINTAINED BY THE UNITED KINGDOM, FRANCE AND FINLAND TO QTE INSURE UNQTE EXPORTERS AGAINST RISKS OF INFLATION IN PROVIDING FIXED PRICE BIDS FOR PROJECTS HAVING TIME FRAMES OF SEVERAL YEARS. ADDITIONALLY, WE UNDERSTAND THAT WEST GERMANY AND JAPAN HAVE PROVIDED SUCH SUPPORT ON A CASE BY CASE BASIS, AND THAT JAPAN HAS A TAX DEFERRAL PROGRAMME WHICH WOULD GIVE ASSISTANCE TO EXPORTERS IN RESPECT OF COST ESCALATION.

THE CANADIAN GOVERNMENT HAS BEEN UNDER PRESSURE FROM EXPORTERS TO INTRODUCE SOME FORM OF COST ESCALATION INSURANCE PROGRAMME IN ORDER THAT CANADIAN FIRMS MIGHT BE BETTER ABLE TO COMPETE WITH FOREIGN EXPORTERS BENEFITTING FROM SUCH SCHEMES. WHILE THE CANADIAN AUTHORITIES ARE CONCERNED ABOUT COST ESCALATION RESULTING FROM INFLATION AND ITS EFFECTS ON FIXED-PRICE LONG-TERM CONTRACTS, WE MAINTAIN THAT THE SOLUTION DOES NOT LIE IN THE ESTABLISHMENT OF A COMPETING CANADIAN PROGRAMME, BUT RATHER IN THE ELIMINATION OF SUCH SCHEMES ENTIRELY. THE CANADIAN AUTHORITIES INTEND, THEREFORE, TO WORK TOWARDS EARLY AGREEMENT TO HALT THE PROLIFERATION OF COST ESCALATION INSURANCE AND SIMILAR PROGRAMMES AND TO ABOLISH THOSE THAT ALREADY EXIST.

AS YOU KNOW IT IS THE CANADIAN VIEW THAT THESE COST ESCALATION INSURANCE SCHEMES ARE A VIOLATION OF GATT ARTICLE XVI:4 BECAUSE OF THE INHERENT SUBSIDY IN THESE PROGRAMMES. THERE APPEARS TO BE NO ELEMENT OF INSURANCE OR RISK COVERAGE IN THE ACCEPTED SENSE IN SUCH SCHEMES.
CONFIDENTIAL

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PAGE 03 STATE 259166

IT IS DOUBTFUL THAT EXPORTERS WOULD BE PREPARED TO PAY THE HIGH PREMIUMS REQUIRED TO ENSURE PROFITABLE COMMERCIAL OPERATION OF COST ESCALATION INSURANCE SCHEMES AND SIMILAR PROGRAMMES. A PROLIFERATION OF SUCH PROGRAMMES WOULD LEAD ULTIMATELY TO A SELF-DEFEATING COMPETITIVE SPIRAL. ADDITIONALLY, SUCH MEASURES RUN COUNTER TO INTERNATIONAL EFFORTS TO REDUCE THE SUBSIDY ELEMENT IN EXPORT CREDIT SCHEMES.

SHOULD IMPORTANT CANADIAN COMMERCIAL INTERESTS BE
SERIOUSLY AFFECTED BY COMPETITION FROM FOREIGN FIRMS
BENEFITTING FROM COST ESCALATION INSURANCE ASSISTANCE,
THE CANADIAN AUTHORITIES MAY HAVE TO ADOPT SPECIAL
MEASURES TO ENSURE THAT CANADIAN EXPORTERS ARE NOT PLACED
AT A COMPETITIVE DISADVANTAGE. HOWEVER, CANADA WILL
ONLY CONSIDER SUCH INITIATIVES IN THE ABSENCE OF
MEANINGFUL ACTION TO REMOVE COST ESCALATION INSURANCE
PROGRAMMES ALREADY IN PLACE; AND, IN REACTION TO
SITUATIONS IMPOSED BY FOREIGN COMPETITORS, WILL MAKE
EVERY EFFORT TO PURSUADE GOVERNMENTS OFFERING COST
ESCALATION INSURANCE SCHEMES TO ELIMINATE SUCH PROGRAMMES,
WHICH CAN ONLY UNDERMINE INTERNATIONAL EFFORTS FOR THE
LIBERALIZATION OF INTERNATIONAL TRADE. END TEXT.'

3. CANADIAN LETTER IS FOR INFORMATION OF POSTS ONLY,
AND SHOULD NOT BE MADE AVAILABLE TO OTHER GOVERNMENTS. KISSINGER

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Margaret P. Grafeld
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